J.C.Penney Company, Inc. 1971 Annual Report


JCPenney

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Financial Highlights (In millions)	1971	1970
Sales	$4,812.2	$4,354.7
Per cent increase from prior year	10.5	11.3
Net income	135.7	114.1
Per cent increase (decrease) from prior year	18.9	(0.2)
Per cent of sales	2.8	2.6
Per cent of stockholders' equity	18.0	16.8
Net income per share—primary	2.46	2.14
—fully diluted	2.43	2.08
Dividends per share	1.01	1.00
Capital expenditures	237.2	213.4

On the Cover

Shopping by catalog: Penney's catalog operation became profitable in 1971 and contributed significantly to growth in net income, thanks to the efforts of associates throughout the Company.

Inside the front cover, the main entrance of the new Penney store in the Franklin Park Shopping Center in Toledo, Ohio demonstrates the contemporary appearance of Penney full line stores. The JCPenney logotype was introduced in 1971.

Table of Contents

Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 a.m. Tuesday, May 16, 1972 at the Company's Catalog Distribution Center, 5500 South Expressway, Forest Park, Georgia. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 10, 1972. Your prompt attention to the proxy statement will be appreciated.

To Our Stockholders

William M. Batten, Chairman of the Board, Jack B. Jackson, Vice President and Director of Regional Operations, and Cecil L. Wright, President, inspect a model of the Penney store in the Franklin Park Shopping Center, Toledo, Ohio. Mr. Jackson succeeds Mr. Wright as President April 1, 1972.

The Penney Company achieved record sales and earnings in 1971. Net income rose 18.9 per cent to $135.7 million from $114.1 million in 1970. This amounted to primary net income per share of $2.46 compared with $2.14 in the prior year. On a fully diluted basis, earnings per share were $2.43 against $2.08.

Sales increased 10.5 per cent to $4.8 billion in 1971 from $4.4 billion in 1970. Sales for both years reflect consolidation of the Company's merchandising operations in Belgium and Italy. This did not affect earnings since the operating results of the European subsidiaries were previously included in earnings on an equity basis.

A significant contribution to the overall earnings performance was provided by Catalog, with 1971 marking the first year this operation made a profit. Leverage from a growing sales base and increased productivity of the Company's two catalog distribution centers accounted for the turnaround, but these factors came about only through the extra efforts of many Penney associates in Catalog, in the stores, in district and regional offices, and in the New York headquarters. They are to be congratulated for the 23.8 per cent increase in catalog sales last year.

Penney stores' operating profit increased substantially from the 1970 level. Both full line and soft line stores showed profit improvement, but full line stores, of which there were 270 at year end, accounted for most of the Penney stores' profit growth. Maintenance of effective inventory and expense controls contributed to the Penney stores' performance.

Sales of other retail activities, including The Treasury stores, Thrift Drug, and food supermarkets, also increased in 1971. Except for The Treasury, profits were also higher. The small loss in The Treasury operations resulted primarily from expenses related to new store openings, which increased The Treasury store space approximately 50 per cent.

Interest expense declined in 1971 due largely to the drop in short term interest rates. Another contributing factor was the retirement during the year of the Company's 4¼ per cent convertible subordinated debentures due 1993, almost entirely by conversion into common stock. The favorable effect of those factors was partially offset by the interest expense on long term debt issued by the Company in 1970 and by J. C. Penney Financial Corporation in 1971.

Reflecting the substantial upturn in earnings, the Board of Directors on December 29 voted to increase the regular quarterly dividend from 25 cents to 26 cents per share starting with the February 1972 payment. This was the maximum increase permitted by the 4 per cent guideline established by the President's Committee on Interest and Dividends.

The principal negative factor in 1971 was the situation abroad, where our European subsidiaries, Sarma, S.A. in Belgium and J. C. Penney S.p.A. in Italy, had a combined loss of $12.2 million. Sarma's share was $7.3 million, J. C. Penney S.p.A.'s $4.9 million.

Sarma's progress was impeded by several factors. Principal among them were the generally weak Belgian economy, a slowdown in consumer spending after introduction of the value added tax on January 1, 1971, a freeze on retail food prices, and much higher labor costs due to new national union contracts. The loss also reflected pre-opening costs related to Sarma's expansion program and the upward revaluation of the Belgian franc against the United States dollar.

With only two stores opened in Italy, both in 1971, J. C. Penney S.p.A. had high management costs in relation to sales. Pre-opening expenses and a depressed Italian economy also contributed to the loss.

Despite these results, an international base remains part of our strategy for growth, and we are proceeding with expansion plans for 1972. These include four new stores in Belgium as part of Sarma and two more units in Milan, Italy.

In 1971, all the major components of our long range plans of the early Sixties were in place, and we began to refine the operations and build the profitability of each unit: Penney stores—full line, soft line, and stores with food; The Treasury stores; Catalog; specialized stores such as Thrift Drug; overseas stores; and consumer financial services.

In 1972, we shall continue to be concerned with increasing the profitability of these units. But we shall also keep firmly in mind a concern we know we share with many of our customers, stockholders, associates, and suppliers. That concern is for the quality of life—our social and physical environment.

Our primary responsibility as a retailer, in our view, is to operate efficiently, honestly, and with the real interests of consumers in mind. We are determined to offer the best values in merchandise and services at the lowest possible prices.

We try to be sensitive to social and environmental issues not only because

they affect us as a Company but also because we realize that much of what we do as a Company does have an impact on our social and physical environment. Translating this sensitivity into day-to-day activities at all levels of the Company then becomes our challenge. Penney associates are responding in various ways: Our advertising department, in planning a national advertising campaign, sought out and selected print media that serve predominantly the black market to carry some of our sales messages. Our treasurer's office is establishing working accounts in a number of minority-owned banks.

In respect of social problems, we realize we can be most effective if we stay within the areas of our expertise; for example, we know we have a role in job training, as we discuss later in this report in the essay on "Operating a New Store Profitably." It is in such areas that a business like ours can make a contribution along with other segments of society—in particular, government, labor, and education.

As a retailer, we are not confronted with air and water pollution problems of any consequence. Rather, our environmental efforts currently are directed toward the investigation of ecologically and economically sound systems of solid waste management. As part of our study, we have installed hydraulic waste compaction units at some of our facilities. Other stores and installations are directing trash to recycling plants. As technology advances and opportunities present themselves, we expect our use of such techniques to increase.

In store and facility planning, Company criteria have been established with respect to the aesthetics of our facilities. These include, among other things, considerations of land contour, building elevation, and landscaping.

In furtherance of our long-standing nondiscrimination policy, we inaugurated in 1971 and will continue to implement in 1972 an Affirmative Action Program to increase minority employment and the representation of women and minorities at management levels throughout the Company.

Our expansion plans for 1972 call for capital expenditures approximating the $237 million expended in 1971, and include 35 new Penney stores, four The Treasury stores, and 12 Thrift Drug stores, in addition to six new stores abroad as previously mentioned.

In the United States, 16 of the Penney stores will serve new market areas for the Company, while 19 will be enlarged relocations of existing units. A total of 38 auto centers will open with the Penney and The Treasury stores. In sum, we anticipate adding about 7 million gross square feet to our store plant, compared with the 6.2 million total in 1971.

Recognizing that more and more consumers today, especially young married couples, shop where credit is available, we have taken steps to liberalize payment schedules. Our credit costs continue to exceed service charge revenues. It is for this reason that we support the enactment of the Uniform Consumer Credit Code and other statutes authorizing reasonable rates of service charges which will cover such costs.

We have scheduled our first national advertising program because our store and catalog penetration and volume concentration now make it efficient to be on network TV and in national magazines in a big way. Our most conspicuous effort to build customer awareness and acceptance of the Company and its merchandise will take place on November 7, when we will sponsor a major part of election night coverage on the three largest networks.

In addition to TV spots on a broad spectrum of programs ranging from women's interest through news and sports, the national advertising effort will utilize magazines in such fields as home furnishings, junior and ladies' fashion, sports, news, and men's interest.

The bulk of our advertising, however, will continue to be directed locally, with emphasis on newspaper advertising, advertising circulars, and local TV and radio.

The Company has developed improved pension and savings and profit-sharing plans to help attract and retain capable associates. The Board of Directors adopted these plans effective January 1, 1972, subject to the approval of stockholders at the annual meeting in May.

The new pension plan differs essentially from the former plan in that it is entirely Company paid. A key feature of the new savings and profit-sharing plan is that it opens up membership to more associates and, in the case of regular associates, earlier in their employment.

Vesting in both plans has been accelerated, and along with other substantive changes, these new benefit programs provide significant incentives to associates at all levels in the Company to make J. C. Penney their career.

A new regional organization went into effect February 1. It is designed to reflect the realities not only of the country's recent growth patterns but also of Penney's past and future store expansion. For example, two regions were created in the south where one had previously existed because of the Company's dramatic growth in that area in recent years. The Company's five regions are now eastern, southeastern, southwestern, central, and western.

Cecil L. Wright retires as President and Chief Administrative Officer on April 1, 1972. Mr. Wright will remain a director of the Company, affording us the benefit of the knowledge and experience he has acquired in a Penney career that has spanned more than 40 years and many aspects of our operations.

To succeed Mr. Wright, the Board of Directors has elected Jack B. Jackson, who has served as Vice President and Director of Regional Operations since 1971. At the same time, Walter J. Neppl, Vice President and Director of Merchandising, was elected Executive Vice President, with responsibility for overseeing merchandising, marketing, and Penney store operations.

In addition, Galen R. Hogenson, new General Merchandise Manager of Apparel Lines, and Baldwin L. Humm, Director of Catalog Sales and Operations, have been elected Vice Presidents effective April 1.

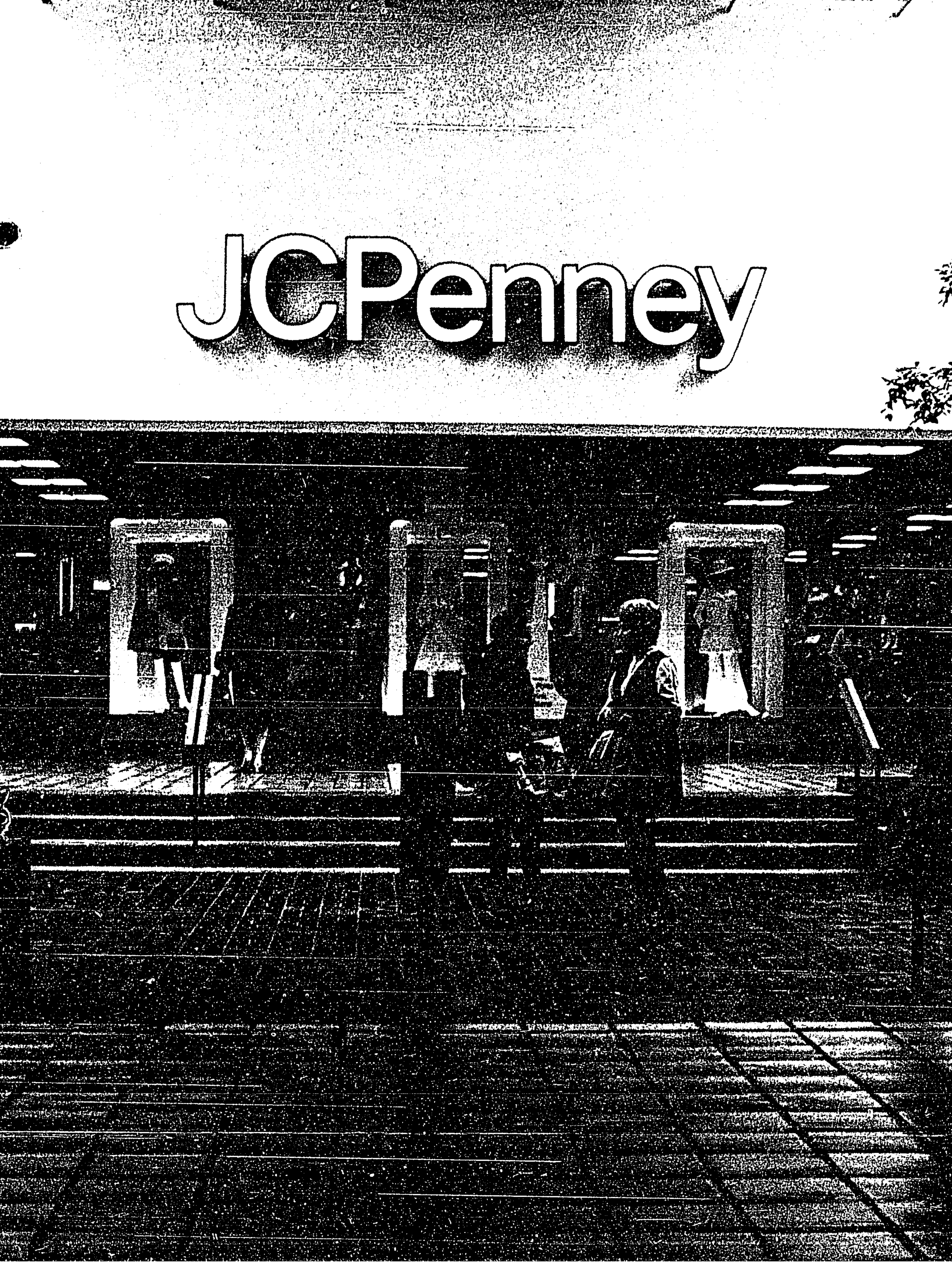
The present outlook is that general merchandise retailing will continue to improve along with the economy. It is still too early to assess the impact on 1972 performance of the government's Phase II program, but with additional sales volume and strict expense control, we are confident that we can further improve earnings.

As in other years, we must ask all our associates and suppliers to help us to achieve our sales and cost objectives. Without their wholehearted assistance, we could not have achieved record sales and earnings last year. We thank them as well as our customers and stockholders for their continued confidence in the J. C. Penney Company.

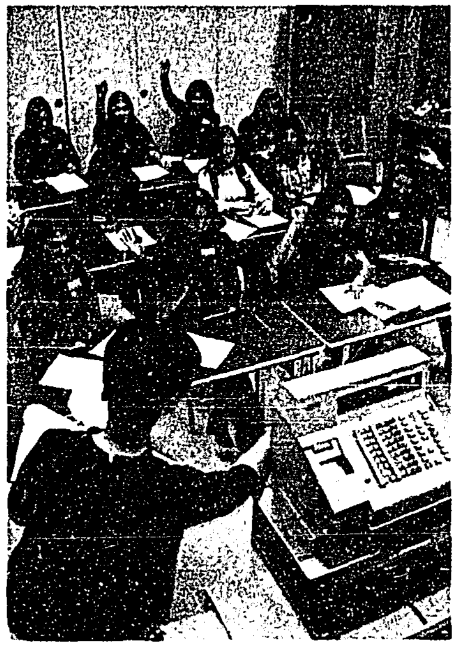
William M. Batten
Chairman of the Board

Cecil L. Wright
President

Climate-controlled malls, such as this one at the Franklin Park Shopping Center in Toledo, make it possible to shop comfortably in any weather.


JCPenney

Operating A New Store Profitably



Penney associates, the essential ingredient in store profitability, begin their careers at the Eastridge Mall store with classroom instruction.

The J. C. Penney Company's net income each year reflects the aggregate performance of the 162,000 associates who operate Penney, The Treasury and Thrift Drug stores, Catalog, consumer financial services, supermarkets, and European stores. The largest part of profit, however, is provided by the Penney stores—each of which exists in a unique environment, geographically and demographically, making the whole of Penney's domestic store organization as diverse as America itself.

Penney's new store at Eastridge Mall, a major shopping center in the rapidly developing San Jose, California area, illustrates in concrete detail how the Company works to plan and maintain store profitability and market penetration in a community with its own individual characteristics and needs.

Although the Penney store in Eastridge Mall opened just last year, its planning started some five years earlier. Penney's real estate committee approved the new store after determining that it would meet Company objectives in terms of profit on projected sales and return on investment. Among the key tasks completed during the subsequent preopening process were:

- Positioning of the new store to take maximum advantage of traffic patterns in the shopping center.
- Determination of the "merchandise mix"—the selection of goods to be offered by the store.
- Development of a store design attractive aesthetically and utilizing the latest ideas in decor, fixturing, and arrangement of space in order to maximize the productivity of selling space for each line of merchandise.
- Selection of the store manager, staffing of the new store, and training of associates.
- Integration of the store into the Penney field organization.

Customer convenience and productivity of selling space are combined in an attractive open bay in the Eastridge Mall store in San Jose. Customers can browse at their leisure or be helped by sales associates, as they choose.

Training, conducted by experienced supervisory associates, continues on the job at Penney stores Here a new office associate learns the correct procedure for auditing sales receipts.

While the staffing of the store is one of the final steps in the preopening process, Penney has traditionally regarded people as the essential ingredient in store profitability. Studies of successful stores have demonstrated that superior performance and sales productivity are traceable to the standards set by the manager and his effectiveness in training and leading people.

Store managers are selected carefully. They are experienced associates identified as high performers in periodic, systematic performance reviews of all associates. For example, Eastridge Mall's manager, Lamar Jensen, joined the Company in 1947 and held five positions at different levels of responsibility before becoming a store manager in 1958. He then successfully managed four Penney stores of increasing size in Washington and California.

As is typical of Penney stores, the majority of the associates at Eastridge Mall were recruited from the local community. Particular efforts were made to inform minority groups of employment opportunities at the store. Intensive training programs were undertaken for the new and often inexperienced associates. In addition, a special training program was run with the cooperation of the National Alliance of Businessmen under contract with the U.S. Department of Labor.

This training effort is one demonstration of Penney's responsiveness to the needs of the communities it serves and of its recognition that profit over the long term depends on the health of those communities.

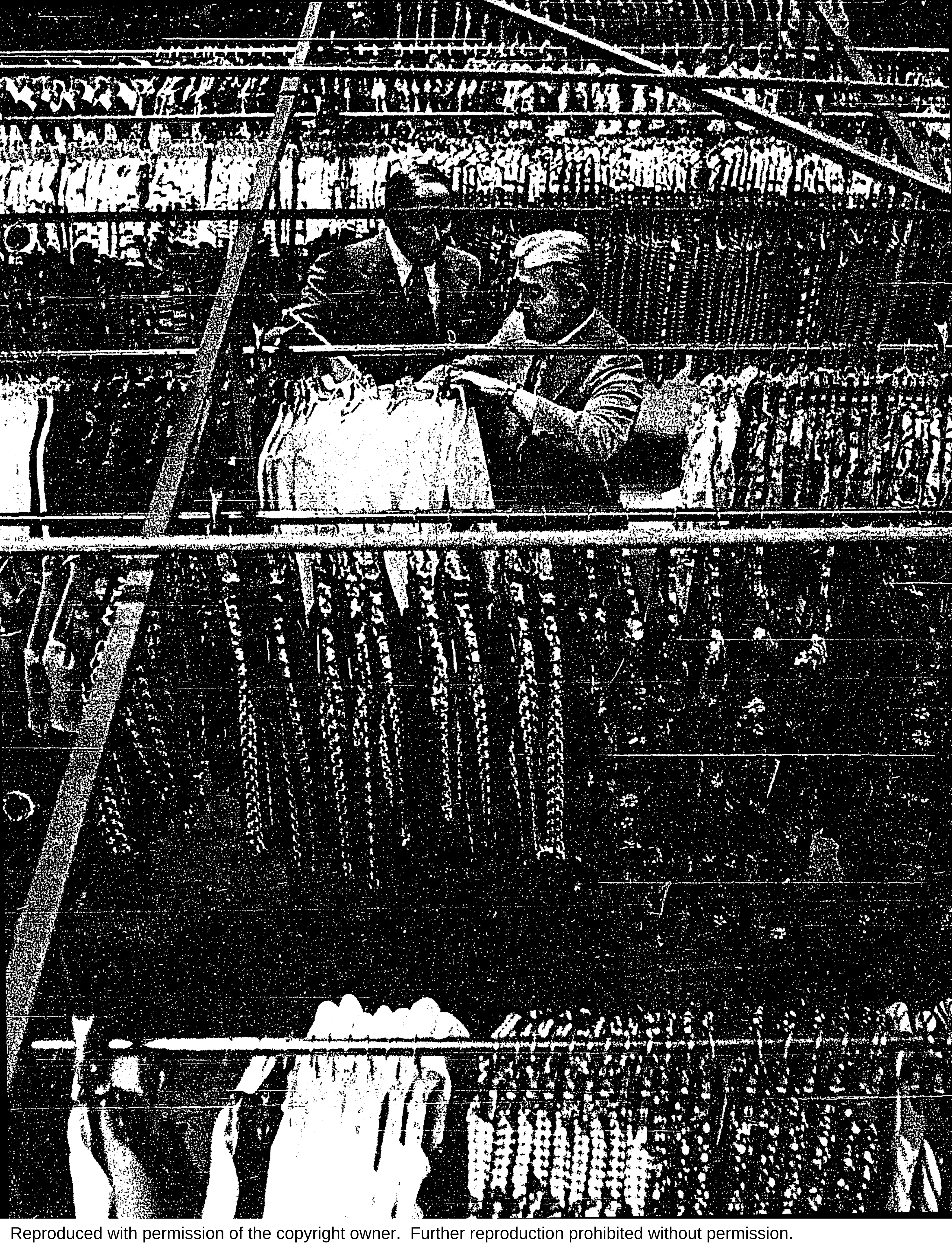
Some 18 months before the store's opening, the merchandise mix was prepared. A store's initial merchandise mix involves the breakdown, by merchandise subdivision, of its anticipated sales volume. Misses' blouses is an example of a subdivision, stereo components another. The mix must be established early because the estimated sales volume of each subdivision largely determines the amount of selling space that can be allocated profitably to it in the original design of the store.

The mix for Eastridge Mall was prepared by the district manager and the regional sales and merchandise manager. They began their task by selecting one of seven optimum merchandise mixes developed by the Company. These mixes, each of which serves as a model for a store in a specific size category, partly reflect past sales performance of lines of merchandise in Penney full line stores. They also reflect the cumulative judgment of hundreds of Penney merchandising associates about sales trends in the future and, in the case of some new lines, specific Company programs for filling additional consumer needs and wants. The mixes are constantly reviewed and updated.

In the case of Eastridge Mall, the mix was modified to meet local needs and anticipated new merchandising thrusts.

The assortment of goods within each line—the specific styles, colors, sizes, and prices—also is essential. In maintaining a balanced and profitable assortment in misses' blouses, for example, a great deal of responsibility is vested in Eastridge Mall's manager.

Sales and profits are increased by insuring the condition of the merchandise presented to the customer, as well as by the correctness of the merchandise mix and the assortment within each line. At right, Lamar Jensen, manager of the Eastridge Mall store, and a member of his staff inspect an assortment of blouses at the receiving warehouse.



In deciding precisely what colors, styles, quantities, and unit prices should make up the assortment in order to achieve projected sales, the manager could accept assortments already prepared by Penney's buying organization to fill the entire line. In such fast-changing fashion lines, however, his knowledge of local customer preferences and buying habits is critical. As a result, he and his staff have complete discretion with respect to as much as 60 per cent of the store's misses' blouses, chosen from the total selection made available through the Penney buying organization. Even when the manager is new to his community, he can make such decisions realistically because he stays in close touch with Penney's regional merchandising staff, consisting of associates with experience in the area and community.

The assortment plan for the remaining 40 per cent of misses' blouses—normally basic styles for which demand is relatively steady, or items to be specially promoted—is developed by the Penney buying organization.

In fashion merchandise, achieving the most effective balance is not a mechanical process. Into it goes the accumulated experience of years in merchandising as well as a "feel" for the pulse of the fashion market. While Penney buyers, store managers, and merchandising associates base their merchandise assortment decisions on a number of factors, quality and value—long hallmarks of Penney merchandise—come first.

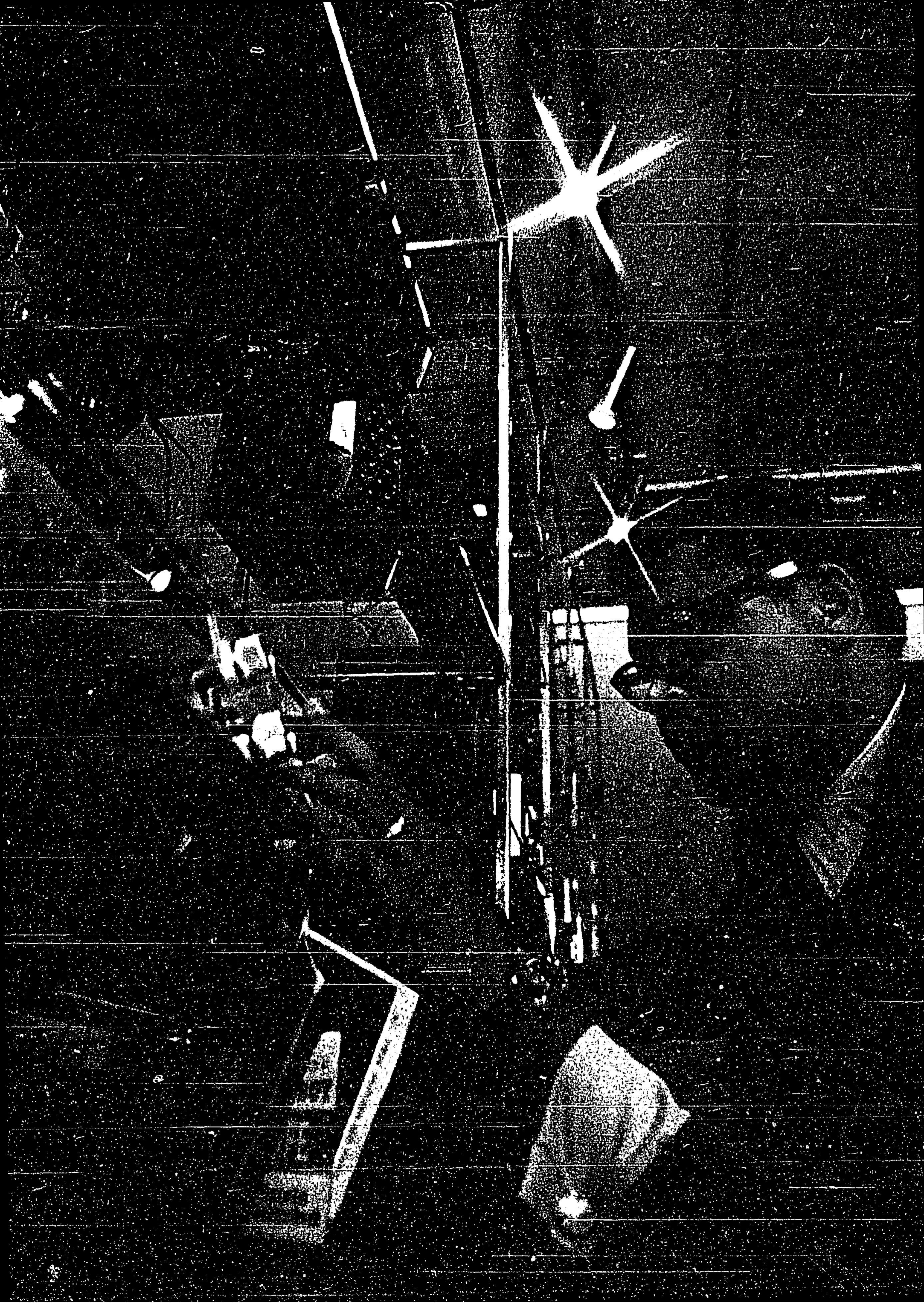
Because markdowns on merchandise that does not sell at prescribed markups directly reduce profitability, the store manager must be acutely aware of the changing needs and preferences of his customers. He must develop an understanding of his community's tastes by getting to know the people who live in it.

This is just as true in lines other than fashion apparel. One of the Company's "expansion lines" bolstering the merchandise mix in full line stores is stereo components. Penney's line of components is developed by a buying staff in New York responsible for contracting for the manufacture of equipment to Penney's specifications.

Penney's buyer of stereo components works with an engineer in the Company's Merchandise Testing Center in New York to check out a component of a packaged stereo system before it is offered to the stores.

The convenient auto center at Penney's Eastridge Mall store provides diagnostic services and routine maintenance, in addition to a wide range of automotive products.

A Penney buyer examines construction details of a garment in manufacturer's cutting room. His efforts help insure that quality and value are built into the merchandise included in the assortment offered in the store.



The store manager, however, retains control over the assortment of components he offers, since he is responsible for meeting pre-established sales goals per square foot of sales space in this as well as all other lines. One way this has been exceeded in full line stores like Eastridge Mall is by stressing compact stereo components. They require less space than laige consoles, and they are in faster growing demand in the youth-oriented music market.

The Company's stereo component buying staff in New York has a strong incentive to help the manager make his selling area more productive and efficient because, to that staff, the manager is the customer. The performance of the stereo buying staff is measured in part by the volume of its "sales" to the store manager.

Whether in blouses or in stereo components, the increased sales that are expected each year at the Eastridge Mall store are forecast by the manager with assistance from his district manager. Late each year, the manager prepares a budget, or profit plan, that projects every element of sales and cost on a monthly basis for the next year. Each month during that year, an operating statement is prepared for the store. It measures each element of sales and cost against the store's profit plan.

One of the most critical figures to emerge from the operating statement—besides the profit figure—is one called "direct controllable expense." This includes not only such important costs as wages and salaries and local advertising but also a myriad of smaller and less obvious costs that affect profit, down to store maintenance expenses such as carpet cleaning.

Penney managers learn how to develop the most profitable relationship between cost and the customer service offered in their stores. In controlling cost, each manager has available detailed analyses of average expenses in each category for stores of comparable size, so that he can determine when any category appears to be out of line. Because direct controllable expense is used to compute store profitability for the purpose of determining his profit-sharing compensation, the manager has a direct financial stake in expense control as a component of overall profitability.

Controlling expenses is critical to profitability, and salary cost is one of the most important. In scheduling associates' work assignments, as shown above, flexibility in staffing is sought. Processing cash receipts, below, requires careful attention. It is just one of this associate's responsibilities.

With a knowledgeable and specially trained sales associate on hand, as at the Eastridge Mall store, packaged stereo components help provide a high ratio of sales to selling space. Here, the sales associate tunes a receiver.

Monthly operating statements quickly reveal to the manager if the store is following its planned profit course.

Operating statements are prepared rapidly at the end of each month, and any serious lapse in performance can be quickly pinpointed by the store manager as well as the district and regional managers. For example, an increase in inventory relative to sales volume may be noticed. Depending on the circumstances, this could lead to more restrained buying of some merchandise and to promoting the stock on hand more effectively. Inventory control is a key factor in the Company's overall profitability because of the cost of financing unsold merchandise.

Operating statements from all stores are entered into Penney's computerized accounting system so that the Company's management can analyze overall trends in sales and costs. The entire information flow, as speedy as it is, may become considerably faster in the future. Penney is examining a number of point-of-sale systems in which each transaction can be recorded by a computer terminal that also operates as a conventional cash register. Eventually, this would make possible comprehensive and definitive daily reports on the performance of the entire Penney store organization.

Eastridge Mall's profit plan is continually reviewed by the store manager and the district manager. After six months, with the concurrence of regional and headquarters management, they have the opportunity to make adjustments because of changes in conditions which affect actual sales and cost trends. These adjustments, among other things, enable Penney's financial management to anticipate more accurately the Company's cash requirements and to eliminate unnecessary financing costs.

Store operations are continually monitored and analyzed at the overall Company level to help make them more efficient. One critical research area is the productivity of selling space. To increase productivity, such recent innovations as open bays to encourage customer self-selection have proven successful. Others are being developed by Penney's store design and sales promotion departments in Company headquarters.

Another critical area is the relationship of time periods to expense levels. A large seasonal sales increase, on the one hand, may not create large additional profits if expenses rise unduly; on the other hand, a small increase in expense during a slow period may have a disproportionate impact on profit. Thus, flexibility must be built into staffing plans.

A financial analyst at the Company's headquarters monitors store operating results and compares return on investment with objectives

Accurate stockkeeping is an important ingredient in inventory control and store profitability. Here an associate in the San Jose store begins to learn the most effective way to do the job.

Maximum utilization of store space, another element in profitability, is the aim of the district manager and the store manager as they review the layout of the Eastridge Mall store.

Although Penney's management philosophy places a great deal of responsibility on the store manager and rewards him for his performance, he has available a wide variety of assistance. In any conceivable difficulty, the manager can quickly draw on the services of district, regional, or headquarters specialists.

Delays in shipments, for example, may be resolved by a professional distribution staff. In New York, a sales promotion department prepares advertising and promotion materials for the entire store organization, determines monthly and seasonal merchandising themes, develops and tests new concepts for more economically and attractively displaying goods, and even publishes a monthly bulletin in magazine format to keep each store manager up to date on advertising and promotion programs.

Even before plans for the Eastridge Mall store were complete, Penney and the San Jose State College School of Business were working together on a cooperative project to improve the economic position of low-income residents in the San Jose area.

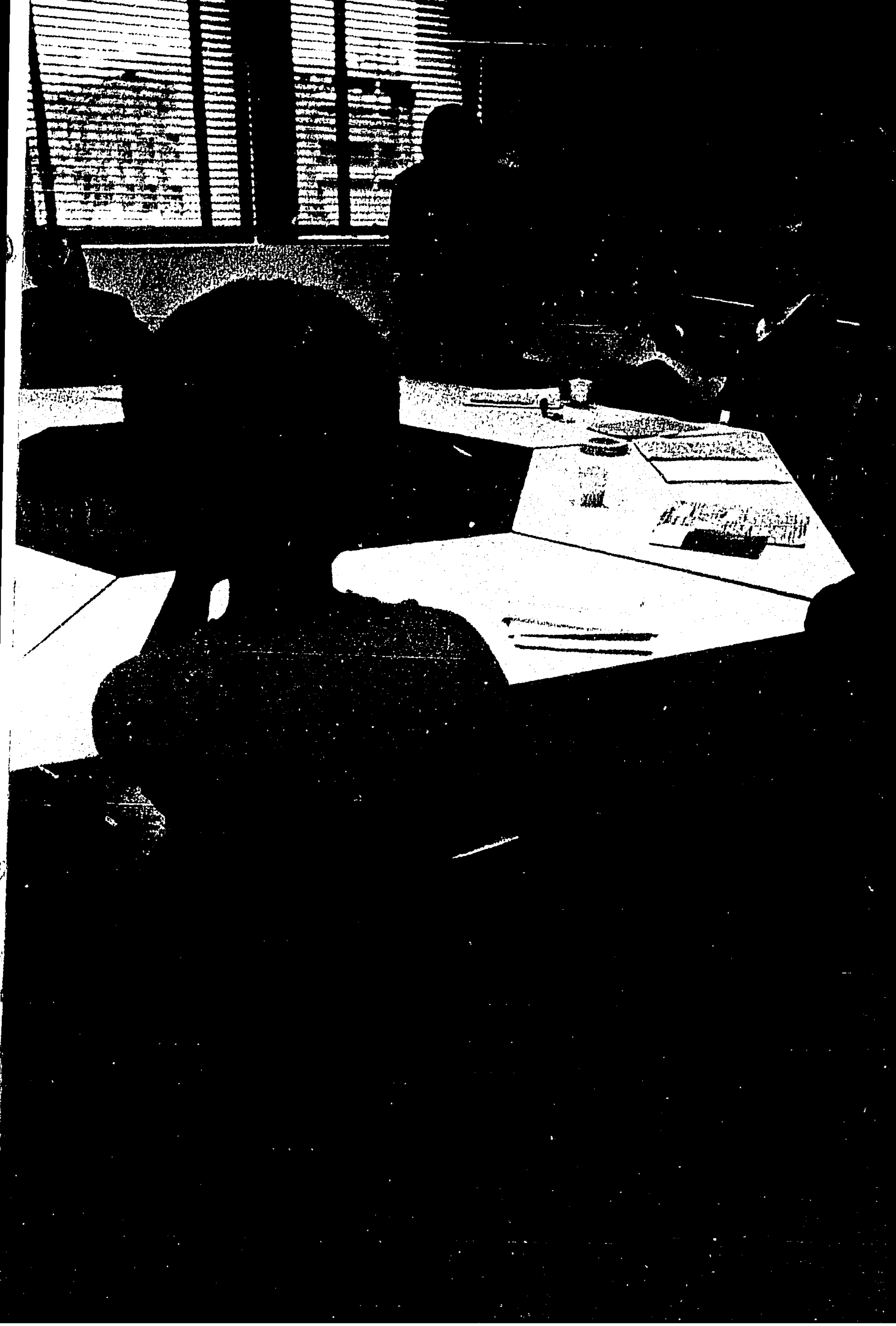
As planning for the store developed, Penney management realized that the store itself could play a part in the cooperative project because it would serve a large minority population. Among other things, Penney and the shopping center developer jointly encouraged minority-group contractors to become qualified for work on the center and to bid on various jobs, including plumbing, masonry, and carpentry. Penney buyers and merchandising associates sought out suppliers from among minority-owned organizations in the San Jose area, and established a source for jewelry, which is now being sold in a number of Penney stores.

Recognizing that such efforts could directly assist only a relatively small part of the community, Penney also provided funds to foster the broader aims of the joint program with the San Jose State College School of Business. Among the programs assisted were a small-business consulting service, a minority enrollment program in the School of Business, a consumer practices seminar to educate consumers in good shopping habits, and a seminar in business practices for minority contractors.

The progress of this modest effort has been encouraging, and the Company is now evaluating it with the objective of determining its potential use. Penney does not believe that the effort is a panacea for the problems facing minority groups, but it does show that business, in cooperation with other institutions, can assist in easing some specific problems.

Achieving profitability in any given store—indeed, even determining a precise profit goal—is a complex procedure involving the coordinated efforts of hundreds of Penney associates. It requires the greatest possible degree of responsibility and accountability at the store level coupled with the greatest possible degree of management judgment and specialized professional assistance at the district, regional, and headquarters levels. In short, it requires an organization tuned to respond positively to the needs and wants of local communities while pursuing the broad objectives of the Company as a whole.

Students and faculty at the San Jose State College School of Business review a joint project with the Penney Company for providing practical assistance to residents of the community. Profit over the long term, Penney believes, depends on the health of the communities it serves.



1971 Review of Operations and Financial Information

Total Company sales in 1971 were $4.8 billion, an increase of 10.5 per cent over the $4.4 billion in 1970. All retail divisions contributed to the sales gain as follows:

(In millions)	1971	1970	Per cent increase (decrease) All units	Comparative units
Penney stores				
Full line	$1,993.9	$1,628.1	22.5	7.3
Soft line	2,079.0	2,119.3	(1.9)	1.2
Total	4,072.9	3,747.4	8.7	3.8
The Treasury stores .	242.3	146.2	65.8	10.1
Thrift Drug stores ...	112.2	98.0	14.6	8.7
Supermarkets	96.6	88.4	9.3	4.4
Mail order	76.9	70.9	8.4	8.4
European operations.	211.3	203.8	3.7	3.5
Total sales ..	$4,812.2	$4,354.7	10.5	4.3

Catalog merchandise sold through Penney stores is included in the sales of Penney stores, and Thrift Drug and Supermarkets sales through Penney and Treasury stores are included in the sales of the latter divisions. Licensed department sales represent less than one per cent of total Company sales, and are included in the sales of Penney and Treasury stores. Comparative units are those in operation throughout both 1971 and 1970. For further breakdowns of sales, see the discussion below of each division's operations.

The 1971 results reflect the opening of 31 Penney stores, six Treasury stores, 22 Thrift Drug stores, and three stores in Europe.

In the seven years ended January 29, 1972, total Company sales have grown at a compound annual rate of 12.2 per cent.

Net income was $135.7 million in 1971, an increase of 18.9 per cent from the $114.1 million earned in 1970.

Income before income taxes and other unconsolidated subsidiaries was $265.6 million in 1971, which is 20.8 per cent higher than the $219.9 million in 1970.

Net income per share increased in 1971 as shown in the following table, which also lists the unaudited amounts for each quarter:

	1971	1970	Increase
Primary			
First quarter	$ .31	$ .27	$ .04
Second quarter	.46	.36	.10
Third quarter	.68	.60	.08
Fourth quarter	1.01	.91	.10
Year	$2.46	$2.14	$ .32
Fully diluted—year	$2.43	$2.08	$ .35

In the seven years ended January 29, 1972, primary net income per share has increased at a compound annual rate of 9.0 per cent.

Net income per share is based on the weighted average number of shares outstanding during each period. Primary net income per share assumes the conversion of the convertible debentures of J. C. Penney Europe, Inc., which are convertible into common stock of the Company, and fully diluted net income per share additionally assumes the conversion of the Company's 4¼ per cent convertible debentures prior to the redemption date of August 12, 1971, and the exercise of outstanding stock options.

Food supermarkets are part of 18 The Treasury stores and six Penney stores.

The provision for income taxes increased in 1971 as follows:

(In millions)	1971	1970
Federal income taxes		
Current	$109.0	$ 72.3
Deferred	13.5	30.0
	122.5	102.3
State and local income taxes		
Current	10.8	6.8
Deferred	1.0	1.0
	11.8	7.8
Total income taxes	$134.3	$110.1
Effective tax rate on income before income taxes and other unconsolidated subsidiaries	50.6%	50.1%

Since the losses in the Company's European subsidiaries may not be consolidated in the Company's U.S. tax returns, they did not produce tax offsets. This resulted in an increase in the effective tax rate in 1971.

Investment tax credits increased to $4.0 million from $1.5 million in 1970.

Deferred taxes arise principally from deferred gross profit on the balance due from installment sales and the effects of accelerated depreciation.

Taxes other than income taxes totaled $76.5 million in 1971, up from $65.5 million in 1970.

The quarterly dividend declared remained at 25 cents per share for the first three quarters and increased to 26 cents in the fourth quarter, for a 1971 total of $1.01 per share. Dividends declared amounted to $55.3 million in 1971, compared with $52.9 million in 1970.

The Company opened 31 Penney stores in 1971. The following tabulation details the changes in Penney stores and net selling space:

	1971		1970	
	Number of units	Net selling space (000 sq. ft.)	Number of units	Net selling space (000 sq. ft.)
Full line				
Opened—new markets	14	1,730	11	1,253
Opened—relocations	16	1,625	21	1,725
Net change	30	3,355	32	2,978
Soft line				
Opened—relocations	1	35	—	—
Closed—relocations	(18)	(309)	(21)	(277)
Closed—other	(20)	(464)	(10)	(61)
Expansions	—	42	—	—
Net change	(37)	(696)	(31)	(338)
Total net change	(7)	2,659	1	2,640

Penney stores opened in 1971 ranged in size from 35,000 to 185,000 square feet of net selling space, with an average of 109,000 square feet. A listing of store opening dates, locations, and sizes appears on page 33.

The relatively large amount of space closed in 1971 was atypical and resulted principally from the closing of downtown stores in San Francisco and Oakland, California.

As of year end, there were in operation 270 full line and 1,370 soft line Penney stores. In the typical full line store about two thirds of net selling space is allocated to apparel and other "soft goods"; the balance is used for major appliances, furniture, and other "hard goods." Sales per square foot of net selling space in 1971 were $88 for full line stores and $119 for soft line stores. Full line stores in operation at least one full year produced sales per square foot of $96 compared with $93 in 1970.

Penney stores' operating profit increased substantially from the 1970 level. Full line stores and soft line stores each showed profit improvement, but full line stores accounted for most of the Penney stores' profit growth. Profit margins improved in each of these store categories, with full line stores recording the larger increase.

Soft line stores continued to maintain higher profit margins than full line stores. The average profit margin of full line stores in operation for five years or more improved but was still somewhat below the soft line stores' profit margin.

Six The Treasury stores were opened in 1971, averaging 124,000 square feet of net selling space. Included in the total selling area is a food supermarket of approximately 17,500 square feet of net selling space and an automotive center. A listing of store opening dates, locations, and sizes is shown on page 33. The addition of these stores brought to 19 the number of Treasury stores in operation at year end, with combined net selling space of 2.3 million square feet.

About 65 per cent of total Treasury sales in 1971 was general merchandise; the other 35 per cent came from food supermarkets.

The Treasury operations recorded a small loss in 1971 compared with a small profit in 1970. The loss resulted primarily from the expenses of new store openings, which increased the Treasury store space approximately 50 per cent.

The Treasury stores in operation for more than one year produced sales per square foot of net selling space of $122 compared with $113 in 1970.

The Company opened 22 Thrift Drug stores in 1971, with net selling space totaling 190,000 square feet. Six stores were closed, and at year end there were 205 Thrift Drug stores in operation, with 1.2 million square feet of net selling space. In addition, Thrift Drug operated drug and health and beauty aid departments in 19 The Treasury and nine Penney stores.

The following table shows a breakdown of Thrift Drug volume:

(In millions)	1971	1970	Per cent increase
Thrift Drug stores	$112.2	$ 98.0	14.6
Departments in Treasury and Penney stores	16.4	9.4	73.9
Total	$128.6	$107.4	19.8
Number of prescriptions filled	8.9	7.8	14.2

Approximately 25 per cent of Thrift Drug's sales volume in 1971 consisted of prescription drugs.

Thrift Drug's profit increased in 1971 after declining in 1970. Profit margins improved slightly, but most of the gain was due to increased sales.

Thrift Drug stores began offering health food products and related items in 1971, in addition to prescription drugs, toiletries and other items.

Supermarkets operations consisted of 46 food supermarkets in department and discount stores, of which 18 were in The Treasury stores and six in Penney stores. Supermarkets were opened in six Treasury stores and four Penney stores in 1971. The combined net selling space of all 46 supermarkets was 675,000 square feet, with individual units ranging in size from 5,000 to 21,000 square feet.

Supermarkets sales were as follows:

(In millions)	1971	1970	Per cent increase
Sales in			
Treasury and Penney stores	$ 97.0	$ 50.1	93.5
Other stores	96.6	88.4	9.3
Total	$193.6	$138.5	39.8

Sales per square foot of net selling space averaged $287 in 1971, up from $260 in 1970. Sales per square foot of units open for at least one full year were $321 in 1971 compared with $320 in 1970. Profit increased in 1971 principally as the result of increased sales.

Catalog operations became profitable in 1971. As a result of the leverage achieved from sales growth and increased productivity of the Company's two catalog distribution centers, Catalog recorded a profit for the year. The improvement in Catalog contributed importantly to the Company's total income growth in 1971.

The number of Catalog sales centers increased by 60 in 1971, raising the total number to 1,079. Almost all of these sales centers are in Penney stores. Catalog sales were as follows:

(In millions)	1971	1970	Per cent increase
Catalog sales centers	$226.2	$174.0	30.0
Mail order	76.9	70.9	8.4
Total	$303.1	$244.9	23.8

Three European stores were opened in 1971, two in Italy and one in Belgium, with combined net selling space of 147,000 square feet. Opening dates, locations, and sizes of the stores are shown on page 33.

In Belgium, Sarma, S.A. operated 87 stores at year end, with combined net selling space of 1.2 million square feet. One store was opened in 1971, and six stores were closed. In addition, 234 franchised stores were in operation at year end.

In Italy, J. C. Penney S.p.A. opened its first two stores, with combined net selling space of 82,000 square feet.

The following table shows a breakdown of European sales:

(In millions)	1971	1970	Per cent increase
Sarma, S.A.	$208.5	$203.8	2.3
J. C. Penney S.p.A.	2.8	—	—
Total	$211.3	$203.8	3.7

The sales of Sarma, S.A. do not include the value added tax

Operations in these two European subsidiaries resulted in a loss of $12.2 million. Sarma's part of that loss was $7.3 million compared with a loss of $0.7 million last year. Several factors contributed to that result. Principal among them were the generally weak Belgian economy, a slowdown in consumer spending following the introduction of the value added tax on January 1, 1971, a freeze on retail food prices, and much higher labor costs due to new national union contracts. In addition, store pre-opening expenses were higher, and the recent revaluation of the Belgian franc against the U.S. dollar had a negative effect.

The loss of J. C. Penney S.p.A. was $4.9 million including the write-off of previously deferred pre-operating expenses. With only two stores in operation at year end, central management costs were high in relation to sales. Store pre-opening expenses also added to the loss. As in Belgium, the economy was weak in 1971, and sales in the two stores reflected this weakness.

Net assets of Sarma, S.A. and J. C. Penney S.p.A. were $37.0 million at year end.

An associate compares color transparencies of men's wear with fabric swatches to help assure faithful color reproduction in the Penney catalog. Through such catalog departments as the "Big Men's Shop," Penney offers merchandise it would not be practical or sufficiently profitable to distribute nationwide through store channels.

Investment in unconsolidated subsidiaries was $185.0 million at year end 1971, compared with $169.4 million at year end 1970. The following tabulation shows a breakdown of the investment, stated at Penney's equity in net assets:

(In millions)	January 29 1972	January 30 1971
J. C. Penney Financial Corporation	$145.8	$135.5
Other unconsolidated subsidiaries,		
principally insurance companies	39.2	33.9
Total	$185.0	$169.4

Other unconsolidated subsidiaries' contribution to net income was $4.4 million, compared with $4.3 million in 1970. All the income in both years was accounted for by consumer financial services.

The bulk of the Company's consumer financial services is in insurance operations, which consist of J. C. Penney Insurance Company, J. C. Penney Life Insurance Company, and Great American Reserve Insurance Company. Other operations are principally commercial and mortgage banking.

The insurance companies offer a broad array of life and health insurance plans to Penney customers as well as to the general public. Penney's insurance companies are authorized to sell life insurance in 49 states, health insurance in all 50 states, and both life and health insurance in the District of Columbia and Puerto Rico. At the end of 1971, the insurance companies had $1.7 billion of life insurance in force and 313,000 accident and health policyholders, excluding those covered under group plans.

Most segments of the insurance operations improved in 1971, but these improvements were offset by costs associated with a marketing program discontinued during the year. Combined condensed financial statements of the three insurance companies, in accordance with generally accepted accounting principles, are as follows:

Condensed income statement

(In millions)	1971	1970
Premiums written		
Life	$18.8	$16.2
Accident and health	23.8	20.4
Total	$42.6	$36.6
Underwriting income	$ .7	$ 1.7
Investment income	4.6	3.6
Income before income taxes	5.3	5.3
Income taxes	1.4	1.2
Net income	$ 3.9	$ 4.1

Condensed balance sheet

(In millions)	December 31 1971	December 31 1970
Assets		
Bonds, at amortized cost	$ 41.9	$29.4
Stocks, at cost	5.1	6.2
Loans	32.5	32.5
Real estate, net	5.3	5.9
Other assets	25.2	24.7
	$110.0	$98.7
Liabilities		
Policy and claims reserves	$ 69.3	$62.0
Income taxes	6.3	5.3
Other liabilities	2.0	2.9
Equity of J. C. Penney Company, Inc.	32.4	28.5
	$110.0	$98.7

The Company's investment in subsidiaries exceeded the underlying equity in net assets by $2.5 million at year end. This amount is included in other assets on the Company's balance sheet.

Credit sales in 1971 rose to a record $1.6 billion, up 9.5 per cent from $1.5 billion in 1970. The proportion of credit sales to total sales decreased to 36.8 per cent in 1971 from 36.9 per cent in 1970. In computing these percentages, the sales of Supermarkets and European operations were excluded from the sales base because they do not offer consumer credit. Regular charge account sales continued to generate about 85 per cent of total credit sales; time payments, the balance. Below are key statistics regarding credit operations:

	1971	1970
Average balance per regular account	$104.49	$101.68
Average balance per time payment account	$215.38	$214.13
Net bad debt losses as per cent of total credit sales for year	1.2%	1.3%

The cost of the retail credit operation is presented below in accordance with a practice proposed for the retail industry, and 1970 figures have been restated accordingly. The cost continued to exceed service charges on customer receivables as follows:

(In millions)	1971	1970
Service charge income	$103.5	$ 96.1
Costs		
Administration	68.5	63.7
Interest	33.2	42.2
Provision for doubtful accounts	20.8	21.3
Income taxes	(9.6)	(15.6)
	112.9	111.6
Net cost of credit	$ 9.4	$ 15.5
Net cost as per cent of credit sales	0.6%	1.0%

Administration includes the costs of operating the regional credit offices and that portion of in-store costs related directly to credit activities.

Interest is stated at the average rate for borrowings of J. C. Penney Financial Corporation (5.1 per cent in 1971; 7.1 per cent in 1970) applied to the average total customer accounts receivable less deferred income taxes resulting from installment sales.

The provision for doubtful accounts consists of bad debts ($19.0 million in 1971; $19.5 million in 1970) plus the accrual required to maintain the allowance for doubtful accounts at two per cent of customer receivables.

Income taxes are based on the Company's average income tax rate.

Class actions have been instituted in a number of states against retailers, in some cases including the Company, seeking substantial recoveries and a reduction of monthly service charges applicable to revolving charge accounts. The ultimate consequences of all the pending actions are not presently determinable but will not in the opinion of the Company's management have a material adverse effect on its financial position or net income.

In 1971 J. C. Penney Financial Corporation purchased $1.7 billion of customer receivables from Penney, up from $1.6 billion in 1970.

Almost all of Penney's customer receivables are sold, without recourse, to its wholly owned subsidiary, J. C. Penney Financial Corporation. Financial withholds, as a reserve, an amount equal to five per cent of the receivables so acquired. In addition, it charges a discount which is calculated to produce earnings that cover fixed charges, chiefly interest on borrowings, at least one and one-half times.

To finance its purchase of the receivables, this subsidiary sells its short term notes (commercial paper) at prime market rates directly to investors, utilizes short term bank borrowings, and, from time to time, issues long term debt. Average short term debt outstanding in 1971, net of short term investments, was $607.4 million, compared with $646.4 million in 1970. Short term interest rates during 1971 were sharply lower than the peaks reached in 1970, and, as a result, the average rate of interest paid on total debt, net of investment income, was 5.1 per cent in 1971 as against 7.1 per cent in 1970.

In August 1971, Financial marketed $75 million principal amount of 7⅞ per cent debentures due September 15, 1991.

Following is a comparative summary balance sheet for J. C. Penney Financial Corporation:

(In millions)	January 29 1972	January 30 1971
Assets		
Customer receivables purchased from J. C. Penney Company, Inc., less 5 per cent withheld pending collection	$824.9	$758.2
Due from J. C. Penney Company, Inc.	—	32.6
Cash and short term investments	19.3	10.7
Other assets	2.9	2.2
	$847.1	$803.7
Liabilities		
Notes payable	$519.5	$563.5
Accrued liabilities	6.8	4.7
Long term debt	175.0	100.0
Equity of J. C. Penney Company, Inc.	145.8	135.5
	$847.1	$803.7

Financial's obligations are not guaranteed by Penney. At year end 1971 there were confirmed lines of credit with 505 banks totaling $625 million available to either Penney or Financial, none of which was in use.

The complete financial statements of J. C. Penney Financial Corporation are contained in its 1971 annual report, which is available upon request.

Receivables increased in 1971 as follows:

(In millions)	January 29 1972	January 30 1971
Customer receivables	$ 21.4	$ 5.6
Due from J. C. Penney Financial Corporation (5 per cent withholding against receivables sold)	43.4	39.9
Other receivables	63.7	54.0
	128.5	99.5
Less allowance for doubtful accounts	18.3	16.1
Receivables, net	$110.2	$83.4

Interest expense was $53.5 million in 1971, down from $64.9 million in 1970. The following table details the principal components of interest expense:

(In millions)	1971	1970
Discount on customer receivables sold to J. C. Penney Financial Corporation	$48.7	$66.3
Interest on advances from J. C. Penney Financial Corporation	8.6	16.4
Interest on long term debt	18.8	14.3
Other interest, net	3.4	(.3)
	79.5	96.7
Less:		
Income of J. C. Penney Financial Corporation before income taxes	19.8	29.6
Capitalized interest on construction in progress and land held for future use	6.2	2.2
	26.0	31.8
Total interest expense	$53.5	$64.9

The decline in interest expense was largely the result of the drop in short term interest rates. Also contributing to the decline was the retirement in August 1971 of the Company's 4¼ per cent convertible subordinated debentures due 1993. These effects were offset to some degree by the interest expense on long term debt issued by Penney in 1970 and Financial in 1971.

Merchandise inventories rose to $879.4 million at year end, an increase of 11.4 per cent over the $789.5 million at year end 1970. The increase in inventories resulted from higher volume as well as merchandise in new stores.

Working funds during 1971 increased by $62.7 million, compared with an increase of $84.3 million in 1970. Working funds consist of current assets less current liabilities, excluding deferred credits, principally tax effects applicable to installment sales. The statement of changes in working funds, incorporated into the statement of changes in financial position, appears on page 30.

Properties at year end were as follows:

(In millions)	January 29 1972	January 30 1971
Land	$ 34.0	$ 29.8
Buildings	152.2	139.8
Fixtures and equipment	497.4	443.9
Leasehold improvements	64.3	48.2
Construction in progress and land held for future use	134.5	139.7
	882.4	801.4
Less accumulated depreciation and amortization	268.1	242.2
Properties, net	$614.3	$559.2

In 1971, Penney sold 22 store properties at approximate cost of $96.0 million and leased them back.

Capital expenditures in 1971 totaled a record $237.2 million, compared with $213.4 million in 1970. Included in this amount were expenditures of $10.1 million to modernize and renovate older stores. The following tabulation compares 1971 and 1970 capital expenditures:

(In millions)	1971	1970
Land	$ 18.8	$ 6.4
Buildings	111.4	49.5
Fixtures and equipment	74.4	65.0
Leasehold improvements	15.0	8.7
Construction in progress and land held for future use	17.6	83.8
Total capital expenditures	$237.2	$213.4

Capital expenditures by landlords for domestic facilities totaled $52.0 million in 1971, compared with $63.0 million in 1970. Penney opened 7.9 million gross square feet of new store space in 1971, of which nearly 60 per cent was leased (including 2.2 million square feet sold and leased back). New store space and closed space are detailed on page 33.

Rent expense, including rent based on sales, increased to $132.4 million in 1971 from $119.5 million in 1970. Minimum annual rentals at January 29, 1972, amounted to $89.0 million.

The Company conducts most of its operations from leased properties. Almost all leases will expire during the next 30 years. In the normal course of business, however, leases are renewed or replaced by leases on other properties.

Penney's commitments under long term leases were approximately $530 million at year end 1971. Long term leases are those which have a noncancellable original term of more than three years. These commitments are stated at the present value of all future minimum payments under such leases, after excluding property taxes and maintenance, insurance, and other amounts which do not constitute payments for property rights.

Penney's long term debt declined in 1971 with the retirement of the 4¼ per cent convertible subordinated debentures due 1993 as shown below:

(In millions)	January 29 1972	January 30 1971
J. C. Penney Company, Inc.		
8⅞ per cent sinking fund debentures due 1995	$150.0	$150.0
4¼ per cent convertible subordinated debentures due 1993	—	125.0
Other	3.1	3.2
J. C. Penney Europe, Inc.		
5 per cent convertible subordinated guaranteed debentures due 1989	12.8	12.8
6 per cent convertible subordinated guaranteed debentures due 1989	14.7	25.0
7 per cent Swiss franc loan due 1974	9.8	—
Other	1.1	1.1
Sarma, S. A.		
5¾ to 9.65 per cent Belgian franc loans due 1972 to 1996	18.6	9.6
Total	$210.1	$326.7

The 8⅞ per cent sinking fund debentures are not redeemable prior to July 15, 1980, by debt refunding at an annual interest cost lower than 8.93 per cent. An annual sinking fund of $9.3 million starts in 1980. The indenture contains provisions that restrict payments of cash dividends and the purchase of capital stock for cash. As of January 29, 1972, approximately $323 million of reinvested earnings was free of such restrictions.

To provide for conversion of the debentures of Penney Europe, 484,312 shares of Penney common stock have been reserved.

Stockholders' equity rose to $989.6 million at year end 1971 from $753.3 million at year end 1970.

The return on stockholders' equity increased to 18.0 per cent in 1971 from 16.8 per cent in 1970.

The following table shows the changes that occurred in outstanding common stock:

	Shares		Amount (millions)	
	1971	1970	1971	1970
Balance at beginning of year	53,265,197	51,684,213	$ 72.6	$49.2
Issued in connection with conversion of:				
4¼ per cent convertible subordinated debentures due 1993	2,497,780	—	122.2	—
Penney Europe 6 per cent convertible subordinated guaranteed debentures due 1989	189,875	—	10.1	—
Stock options exercised	144,250	82,959	4.4	2.5
Issued to retirement plan	204,927	147,348	14.1	9.0
Issued under stock bonus plan	84,777	—	5.1	—
Issued in connection with acquisitions	—	1,350,677	—	11.9
Balance at year end	56,386,806	53,265,197	$228.5	$72.6

The number of stockholders increased to 68,000 at 1971 year end from 66,000 at 1970 year end. At 1971 year end there were also 43,000 associates owning beneficially 3.5 million shares of Penney common stock through the retirement plan.

Retirement plan. Penney's contribution to the retirement plan for the year 1971 amounted to $22.6 million, an increase over the $18.9 million contributed in 1970. After $6.4 million was provided for the pension fund of the plan, the remainder was contributed to the profit-sharing fund of the plan, a substantial portion of it in shares of Penney common stock.

The Board of Directors on September 29, 1971, as an amendment to the retirement plan, adopted a non-contributory pension plan and a separate savings and profit-sharing plan, effective January 1, 1972, subject to approval of the stockholders at the annual meeting to be held on May 16, 1972. The savings and profit-sharing plan encourages savings by allocating a Company contribution of 4½ per cent of pre-tax profits to the accounts of those participants who save up to 6 per cent of their total cash compensation. If the plans had been in effect throughout 1971, the Company contributions to both plans would have been $28.4 million.

As a result of adopting the new pension plan, the Company had an unfunded past service liability of $44.8 million at year end. Accrued pension costs, including amortization of the past service liability, are funded annually as incurred. As of January 29, 1972, all vested benefits were fully funded.

Some of the companies acquired in recent years had separate retirement plans which continue in force.

Stock bonus plan. A total of 300,000 authorized but unissued shares of common stock of the Company have been reserved for awards to associates under the stock bonus plan approved by stockholders in 1971. A portion of the shares may be earned during each of the three years beginning with 1971, based on the rate of increase in corporate pre-tax earnings. At year end, 268,378 shares had been awarded, of which 90,005 shares were earned in 1971.

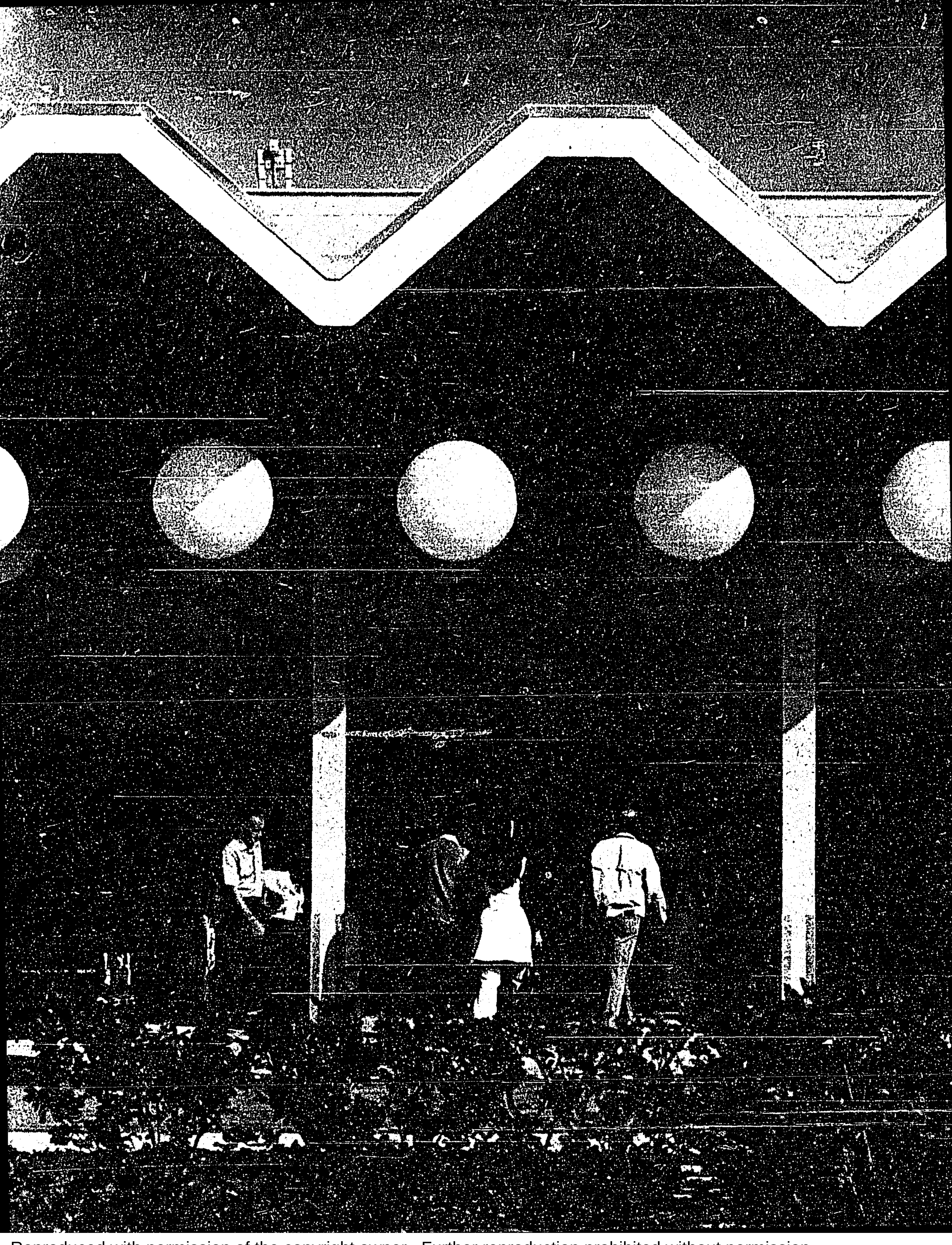
Stock options. At January 29, 1972, there were 251,757 shares of Penney common stock reserved for qualified stock option plans, as follows:

	1971		1970	
	Shares	Option price range	Shares	Option price range
Balance at beginning of year	399,857	$22.59-53.25	457,032	$22.59-53.25
Granted	—	—	33,019	24.02-49.25
Exercised	(143,690)	23.33-53.25	(82,959)	22.59-34.00
Expired	(4,410)	24.02-53.25	(7,235)	28.81-53.25
Balance at year end	251,757	$22.59-53.25	399,857	$22.59-53.25

Options for 168,585 shares were exercisable at the end of 1971. The stock option plan has expired and no further grants can be made thereunder.

A stock option for 560 shares granted in connection with an acquisition in 1962 was exercised on May 4, 1971, at the price of $19.51 per share.

The Treasury store is easily identified by its distinctive facade. This store in Hollywood, Florida, is one of two opened in the greater Miami area in 1971. Two more stores are scheduled for opening in 1972, completing the Penney Company's planned Treasury store coverage of this rapidly developing market.



Statement of Income	52 weeks ended January 29, 1972	52 weeks ended January 30, 1971
Sales	$4,812,238,548	$4,354,669,941
Costs and expenses		
Cost of goods sold, occupancy, buying, and warehousing costs	3,432,060,221	3,112,599,486
Selling, general, and administrative expenses	1,061,140,073	957,196,175
Interest, after deduction of income of J. C. Penney Financial Corporation before income taxes	53,467,845	64,938,826
Total costs and expenses	4,546,668,139	4,134,734,487
Income before income taxes and other unconsolidated subsidiaries	265,570,409	219,935,454
Income taxes	134,300,000	110,137,111
Income before other unconsolidated subsidiaries	131,270,409	109,798,343
Net income of other unconsolidated subsidiaries	4,445,349	4,297,726
Net income	$ 135,715,758	$ 114,096,069
Per share of common stock		
Primary	$2.46	$2.14
Fully diluted	2.43	2.08

Statement of Reinvested Earnings		
Reinvested earnings—beginning of year	$ 680,698,275	$ 619,466,982
Net income for the year	135,715,758	114,096,069
Dividends	(55,313,728)	(52,864,776)
Reinvested earnings—end of year	$ 761,100,305	$ 680,698,275

See 1971 Review of Operations and Financial Information on pages 19 to 26, and 31.

Assets	January 29, 1972	January 30, 1971
Current assets		
Cash	$ 55,302,033	$ 65,728,180
Receivables, net	110,201,186	83,409,167
Merchandise inventories	879,381,432	789,476,500
Properties to be sold under sale and leaseback agreements	30,903,716	—
Prepaid expenses	35,100,024	32,181,295
Total current assets	1,110,888,391	970,795,142
Investment in unconsolidated subsidiaries	184,951,730	169,428,191
Properties, net	614,295,248	559,235,270
Other assets	13,734,759	12,703,407
	$1,923,870,128	$1,712,162,010

Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 490,367,101	$ 396,802,823
Dividend payable	14,602,202	13,282,457
Due to unconsolidated subsidiaries	980,000	32,276,974
Income taxes	50,244,679	36,433,460
Deferred credits, principally tax effects applicable to installment sales	138,200,000	131,000,000
Total current liabilities	694,393,982	609,795,714
Long term debt	210,146,889	326,737,700
Deferred credits, principally tax effects applicable to depreciation	29,700,000	22,372,338
Stockholders' equity		
Preferred stock without par value: Authorized, 5,000,000 shares—issued, none		
Common stock, par value 50¢: Authorized, 75,000,000 shares—issued, 56,386,806	228,528,952	72,557,983
Reinvested earnings	761,100,305	680,698,275
Total stockholders' equity	989,629,257	753,256,258
	$1,923,870,128	$1,712,162,010

See 1971 Review of Operations and Financial Information on pages 19 to 26, and 31.

Changes in Financial Position

(In millions)	52 weeks ended January 29, 1972	52 weeks ended January 30, 1971
Funds were generated from:		
Operations		
Net income	$135.7	$114.1
Undistributed net income of unconsolidated subsidiaries	(14.3)	(19.4)
Depreciation	45.5	38.4
Deferred credits, principally tax effects applicable to depreciation	7.3	6.3
Stock issued to retirement plan	14.1	9.0
Stock issued under stock bonus plan	5.1	—
Total	192.9	148.4
External sources		
Properties sold and leased back	96.0	15.9
Other disposals of properties including future sale and leaseback agreements	40.7	6.6
Increase in long term debt, excluding convertible debentures retired	18.7	155.2
Stock options exercised	4.4	2.5
Stock issued upon conversion of debentures	132.3	—
Total	292.1	180.2
Total funds generated	485.0	328.6
Funds were used for:		
Dividends	55.3	52.9
Capital expenditures	237.2	213.4
Retirement of convertible debentures	135.3	—
Investment in subsidiaries	.7	(.2)
Change in other assets	1.0	2.7
Total funds used	429.5	268.8
Increase in working capital	55.5	59.8
Increase in other deferred credits, principally tax effects applicable to installment sales	7.2	24.5
Increase in working funds	$ 62.7	$ 84.3

Analysis of Increase (Decrease) in Working Funds

Cash	$ (10.4)	$ (22.4)
Receivables, net	26.8	9.4
Merchandise inventories	89.9	72.2
Prepaid expenses	2.9	5.3
Properties to be sold under sale and leaseback agreements	30.9	—
Accounts payable and accrued liabilities	(93.6)	(32.6)
Due to unconsolidated subsidiaries	31.3	74.3
Dividend payable	(1.3)	(.3)
Income taxes and deferred credits	(21.0)	(46.1)
Increase in working capital	55.5	59.8
Deferred credits, principally tax effects applicable to installment sales	7.2	24.5
Increase in working funds	$ 62.7	$ 84.3

See 1971 Review of Operations and Financial Information on pages 19 to 26, and 31.

Summary of Accounting Policies

The accounting policies employed by the Penney Company are consistent with generally accepted accounting principles. In those instances in which more than one generally accepted accounting principle can be applied, the Company has adopted the accounting principle that it believes most accurately and fairly reflects the situation, as described in the following paragraphs.

Definition of Fiscal Year. The Company's fiscal year ends on the last Saturday in January. Fiscal year 1971 ended January 29, 1972; fiscal year 1970 ended January 30, 1971. Each year comprised 52 weeks.

Basis of Consolidation. The financial statements present on a consolidated basis the results of all domestic and European merchandising operations. Not consolidated are J. C. Penney Financial Corporation, three insurance companies, and several small nonretail subsidiaries. Prior year financial statements have been restated to reflect the consolidation of the Company's European operations. The restatement had no effect on net income.

The income before income taxes of J. C. Penney Financial Corporation is included in the statement of income as a reduction of interest expense. The combined income of all other unconsolidated subsidiaries is included as a single item in the statement of income.

The financial statements of insurance subsidiaries are presented in accordance with generally accepted accounting principles. The accounts of insurance subsidiaries are maintained in accordance with accounting practices prescribed or permitted by insurance regulatory authorities, which differ in certain respects from generally accepted accounting principles. Realized investment gains and losses are included in net income.

The accounts of several subsidiaries are included on a calendar year basis, including Sarma, S.A. and the three insurance companies.

Accounts Receivable. Service charge income arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income.

The allowance for doubtful accounts represents 2 per cent of customer accounts receivable at year end.

Inventories. Merchandise inventories in stores are stated at the lower of cost or market determined by the retail method. Other inventories in warehouses or with manufacturers are stated at the lower of cost (first-in, first-out) or replacement market.

Properties. The cost of properties includes interest and certain other carrying costs on construction in progress and land held for future use.

Depreciation. The costs of buildings and equipment are depreciated on a straight line basis over the estimated useful lives of the assets. Improvements to leased premises are amortized on a straight line basis over the life of the lease or the useful life of the improvement, whichever is shorter.

Investment Tax Credits. The Company uses the "flow through" method whereby income taxes are reduced currently for the amounts of the investment tax credit and the job development investment credit.

Foreign Exchange Transactions. All foreign currency accounts are translated into U.S. dollars at exchange rates in effect at each year end for current assets and liabilities, at historical exchange rates for depreciation and noncurrent assets and liabilities, and at average exchange rates during the year for income and expense. Gains and losses are charged or credited to operations as incurred.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except for those of stores opened in January, which are written off in the following fiscal year. Catalog printing costs are written off over the estimated productive lives of the catalogs, not exceeding six months. All other research and development costs are charged to operations as incurred.

The excess of the Company's investment in subsidiaries over underlying equity is being amortized over a 40-year period.

Pension Cost. The cost of pension benefits has been determined by the attained age normal method. Past service liabilities are amortized over 30 years.

Accountants' Report

To the Stockholders and Board of Directors of J. C. Penney Company, Inc.

We have examined the balance sheet of J. C. Penney Company, Inc. and consolidated subsidiaries as of January 29, 1972 and January 30, 1971, and the related statements of income, reinvested earnings and changes in financial position for the 52 week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of J. C. Penney Company, Inc. and consolidated subsidiaries at January 29, 1972 and January 30, 1971, and the results of their operations and changes in financial position for the 52 week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the full consolidation of the accounts of foreign subsidiaries, which had no effect on net income. Also, in our opinion, the accompanying statistical data on pages 33 to 35 present fairly the information shown therein.

345 Park Avenue
New York, N.Y.
March 21, 1972

Peat, Marwick, Mitchell & Co.

Store Space Opened in Fiscal 1971

Date opened		City, state, shopping center	Gross square feet of store space (In thousands)
Penney stores			
Feb.	11	†*Muskegon, Michigan	181
Feb.	11	†*Carbondale, Illinois	117
Feb.	25	Buffalo, New York (Boulevard Mall)	207
Mar.	4	Harrisburg, Pennsylvania (Harrisburg East)	215
Mar.	4	†*Springfield, Illinois	181
Apr.	14	Kansas City, Kansas (Indian Springs)	150
Apr.	15	*Adrian, Michigan (Adrian South Mall)	104
Apr.	15	Lakewood, New York (Chautauqua Mall)	140
May	12	San Jose, California (Eastridge Mall)	261
July	22	Toledo, Ohio (Franklin Park Shopping Center)	295
July	28	*Sacramento, California (Country Club Plaza)	209
Aug.	4	Tucson, Arizona (El Con Shopping Center)	231
Aug.	4	*Irving, Texas (Irving Mall)	164
Aug.	12	*Tupelo, Mississippi (Downtown Mall)	109
Sept.	14	*Mattoon, Illinois (Cross County Mall)	59
Sept.	16	*Austin, Texas (Highland Mall)	239
Sept.	23	*Springfield, Ohio (Upper Valley Mall)	154
Oct.	6	*Yakima, Washington (Yakima Mall)	152
Oct.	6	Schaumburg, Illinois (Woodfield Mall)	331
Oct.	6	Atlanta, Georgia (Northlake Mall)	194
Oct.	6	*Waukegan, Illinois (Lakehurst Shopping Center)	242
Oct.	14	Madison, Wisconsin (East Towne Mall)	207
Oct.	27	*Des Moines, Iowa	182
Oct.	27	Des Peres, Missouri (West County)	208
Oct.	28	*Hialeah, Florida (Westland Mall)	184
Nov.	3	*Hurst, Texas (Northeast Mall)	189
Nov.	10	Atlanta, Georgia (Perimeter Mall)	232
Jan.	5	Fresno, California (Fresno Fashion Fair)	188
Jan.	12	*Bountiful, Utah (Valley Shopping Center)	140
Jan.	13	†*Lake Charles, Louisiana (Prien Lake Mall)	182
Jan.	27	Memphis, Tennessee (Raleigh Springs Mall)	195
The Treasury stores			
Mar.	4	†Hollywood, Florida	238
Mar.	4	†Hialeah, Florida	189
Apr.	22	†Lakewood, California	188
July	29	†Memphis, Tennessee	213
July	29	†Memphis, Tennessee	213
July	29	†Memphis, Tennessee	213
European operations			
Mar.	4	Milan, Italy	75
Mar.	17	Jambes, Belgium	148
Sept.	30	Milan, Italy	73
Thrift Drug stores (22 stores opened)			241
Expansions and other additions			297
Gross store space opened in fiscal 1971			7,930
Less stores closed			1,762
Increased gross square feet			6,168
Increased square feet of net selling space			3,667

*Relocation of existing store.
†Includes food supermarket.

Inside The Treasury store, wide aisles accommodate shopping carts, encouraging self-selection of fashion apparel and other lines of merchandise. Check-out counters are an extra shopping convenience.

Financial Summary 1964-1971

J. C. Penney Company, Inc.
and Consolidated Subsidiaries

	1971	1970	1969	1968	1967	1966	1965	1964
Results for year (In millions)								
Sales	$4,812.2	$4,354.7	$3,912.7	$3,379.2	$2,927.0	$2,702.8	$2,407.9	$2,155.1
Per cent increase from prior year	10.5	11.3	15.8	15.5	8.3	12.2	11.7	14.1
Credit sales as per cent of sales*	36.8	36.9	37.4	35.5	35.4	33.2	31.4	29.2
Income before income taxes and other unconsolidated subsidiaries	265.6	219.9	231.3	237.3	177.5	156.5	152.1	133.2
Per cent of sales	5.5	5.1	5.9	7.0	6.1	5.8	6.3	6.2
Net income	135.7	114.1	114.3	111.5	94.3	82.4	80.7	69.2
Per cent increase (decrease) from prior year	18.9	(0.2)	2.5	18.3	14.4	2.1	16.6	23.8
Per cent of sales	2.8	2.6	2.9	3.3	3.2	3.0	3.4	3.2
Per cent of stockholders' equity	18.0	16.8	18.7	20.6	19.2	18.3	19.5	20.6
Dividends	55.3	52.9	52.6	46.3	45.8	43.8	43.5	37.8
Increase in reinvested earnings	80.4	61.2	61.8	65.2	48.5	38.6	37.4	36.9
Depreciation	45.5	38.4	34.9	28.8	27.0	24.0	20.1	17.3
Capital expenditures	237.2	213.4	175.8	127.7	111.0	71.4	46.4	40.5
Per share results								
Net income—primary	2.46	2.14	2.16	2.12	1.78	1.57	1.56	1.35
—fully diluted	2.43	2.08	2.10	2.08	1.78	1.57	1.56	1.35
Dividends	1.01	1.00	1.00	.90	90	.86	.86	.75
Stockholders' equity	17.55	14.14	12.84	11.56	10.28	9.32	8.58	7.87
Financial position at year end (In millions)								
Assets	1,923.9	1,712.2	1,473.2	1,207.3	953.9	847.0	744.8	667.4
Working funds	554.7	492.0	407.7	422.1	277.0	297.3	295.7	273.0
Customer receivables—net								
J. C. Penney Financial Corporation	824.9	758.2	674.8	532.5	483.2	439.9	298.7	188.0
J. C. Penney Company, Inc.	46.5	29.4	25.7	56.7	13.8	12.7	63.0	101.1
Merchandise inventories	879.4	789.5	717.3	616.5	487.0	491.0	396.8	319.7
Long term debt	210.1	326.7	171.6	125.0	—	—	—	—
Stockholders' equity	989.6	753.3	680.6	611.0	540.7	490.0	451.3	413.8
Stockholders and employees								
Number of stockholders at year end	68,000	66,000	64,000	59,000	56,000	56,000	55,000	53,000
Average number of shares outstanding (millions)	54.9	53.1	53.0	52.8	52.6	52.6	52.6	52.6
Number of employees at year end	162,000	152,000	137,000	119,000	104,000	102,000	88,000	78,000

*Excludes sales of Supermarkets and European operations which do not offer consumer credit.

	1971	1970	1969	1968	1967	1966	1965	1964
Penney stores—full line								
Number of stores	270	240	208	176	141	108	82	52
Net selling space (million square feet)	22.8	19.4	16.5	13.7	10.4	7.4	5.4	3.5
Sales (millions)	$1,993.9	1,628.1	1,327.0	1,002.0	661.2	477.7	296.5	174.0
Sales per square foot	$ 87.60	83.77	80.64	73.19	63.39	64.16	55.31	49.81
Penney stores—soft line								
Number of stores	1,370	1,407	1,438	1,476	1,517	1,548	1,582	1,619
Net selling space (million square feet)	17.5	18.1	18.4	19.0	19.4	19.5	19.6	19.6
Sales (millions)	$2,079.0	2,119.3	2,156.1	2,105.7	2,050.7	2,042.4	1,964.6	1,875.9
Sales per square foot	$ 119.11	116.99	116.85	110.68	105.74	104.50	100.35	95.79
Catalog								
Number of sales centers	1,079	1,019	944	660	637	565	458	405
Number of distribution centers	2	2	2	1	1	1	1	1
Distribution space (million square feet)	4.1	4.1	4.1	2.0	2.0	2.0	1.3	1.3
Sales—mail order (millions)	$ 76.9	70.9	61.9	57.7	52.5	40.8	32.7	31.7
The Treasury stores								
Number of stores	19	13	10	10	6	5	5	5
Net selling space (million square feet)	2.3	1.5	1.2	1.2	.7	.5	.5	.5
Sales (millions)	$ 242.3	146.2	127.5	85.3	54.1	48.9	42.7	17.5
Sales per square foot	$ 105.73	94.49	107.96	72.24	80.64	92.27	80.54	33.05
Thrift Drug stores								
Number of stores	205	189	171	157	148	138	131	123
Net selling space (million square feet)	1.2	1.0	.9	.8	7	.7	.6	.6
Sales (millions)	$ 112.2	98.0	83.5	71.9	62.8	55.2	46.0	40.0
Sales per square foot	$ 95.41	99.62	97.99	89.86	84.20	78.49	72.60	68.89
Supermarkets								
Number of food supermarkets	22	23	20	17	16	13	11	6
Net selling space (million square feet)	.3	.3	.3	.2	.2	.2	.1	.1
Sales (millions)	$ 96.6	88.4	72.4	56.6	45.7	37.8	25.4	16.0
Sales per square foot	$ 324.52	276.80	263.17	252.54	216.31	233.06	188.20	189.52
European operations								
Number of stores	89	92	95					
Net selling space (million square feet)	1.3	1.2	1.2					
Sales (millions)	$ 211.3	203.8	84.2*					
Sales per square foot	$ 168.36	174.08	72.41*					

Catalog merchandise sold through Penney stores is included in the sales of Penney stores, and Thrift Drug and Supermarkets sales through Penney and Treasury stores are included in the sales of the latter divisions. The statistics shown above for Thrift Drug stores and Supermarkets are exclusive of their operations in Penney and Treasury stores.

*Reflects sales of Sarma, S.A. from July 31, 1969, date of purchase

Directors

Kenneth S. Axelson
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William K. Barry
Vice President

William M. Batten
Chairman of the Board

William M. Ellinghaus
President,
New York Telephone Company

Oakley S. Evans
Vice President

Jack B. Jackson
Vice President

Ray H. Jordan
Retired,
formerly President,
J. C. Penney Company, Inc

Walter J. Neppl
Vice President

Donald V. Seibert
Vice President

Charles T. Stewart
Vice President

George S. Stewart
Vice President

Cecil L. Wright
President

Walter B. Wriston
Chairman,
First National City Bank and
First National City Corporation

Officers

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Chairman of the Board

Cecil L. Wright
President

Robert L. Adair
Vice President and Controller

Kenneth S. Axelson
Vice President and Director of Finance and Administration

William K. Barry
Vice President and General Merchandise Manager of Soft Lines

Woodrow P. Campbell
Vice President and
Director of Special Stores and Services

Andrew Cumming
Vice President and
Director of Personnel

Oakley S. Evans
Vice President and
Director of Corporate Development

Robert B. Gill
Vice President and General Merchandise Manager of Hard Lines

Wallis G. Hocker
Vice President and
General Credit Manager

Oscar J. Hunter
Vice President and
Eastern Regional Manager

Jack B. Jackson
Vice President and
Director of Regional Operations

Arthur Jacobsen
Vice President and Director of Consumer Financial Services

Lee S Moore
Vice President on
Special Assignment

Walter J. Neppl
Vice President and
Director of Merchandising

Stanley J. Putman
Vice President and
Southeastern Regional Manager

Foster E Sears
Vice President and
Director of Real Estate

Donald V. Seibert
Vice President and Director of Catalog and The Treasury Stores

Charles T. Stewart
Vice President, General Counsel and
Director of Public Affairs

George S. Stewart
Vice President and
Director of Corporate Facilities and Services

George M. Stone
Vice President and Director of
Government and Public Relations

Marvin L. Tanner
Vice President and
Southwestern Regional Manager

Robert R. Van Kleek
Vice President and
Western Regional Manager

Harold L. Wright
Vice President and
Central Regional Manager

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Treasurer

Albert W. Driver, Jr.
Secretary

John B. Hebard
Assistant Treasurer

Archibald E. King, Jr.
Assistant Secretary

J. David Silvers
Assistant Secretary

Elting H. Smith
Assistant Secretary

John F. Wood
Assistant Controller

Transfer Agents

Chemical Bank
20 Pine Street
New York, New York 10015

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60603

Registrars

The Chase Manhattan Bank, N A
1 Chase Manhattan Plaza
New York, New York 10015

Continental Illinois National Bank
and Trust Company of Chicago
231 South LaSalle Street
Chicago, Illinois 60690

Please address any comments or questions you may have concerning this annual report or the Company's operations in general to.

J. C Penney Company, Inc.
Stockholder Relations Department
1301 Avenue of the Americas
New York, New York 10019

This annual report is printed on recycled paper.

Miss Ginger Rogers appeared at [illegible] in 10 cities in 1971 to [illegible] promote Gaymode, Penney's [illegible] pantyhose brand. Here she entertains a crowd of admirers at [illegible] the Woodfield Mall in Schaumburg, Illinois, near Chicago.